State Notes

TOPICS OF LEGISLATIVE INTEREST

November/December 2007



School Aid Funding Formula: Further Closing of the School Aid Equity Gap By Kathryn Summers-Coty, Chief Analyst

Between 1994 and 2000, the gap between the highest and the lowest school districts' per-pupil funding¹ narrowed from \$7,532 to \$5,454. Since 2000, however, the gap has narrowed only another \$223, and, until the most recent budget process, no multiyear mechanism was put in place to continue closing the gap. Public Act 137 of 2007 provides appropriations for the School Aid budget for fiscal year (FY) 2007-08. Within this Act, a substantial policy change was implemented, restoring the formula that was in place until 2000, which will close over time a portion of the school funding gap.

Recap of Proposal A and the Equity Gap Before FY 2007-08

The March/April 2007 State Notes contained an article entitled, "Per-Pupil Funding Gaps and Equity in School Aid". That article provided historical information on the mechanism for school funding before Proposal A, how Proposal A changed school funding, and how the per-pupil funding gap has shrunk since Proposal A's implementation in FY 1994-95. Included here is a duplication of Table 1 from that article, updated to include FY 2007-08 amounts. In summary, the per-pupil funding gap before Proposal A's implementation stood at \$7,532; by FY 2006-07. the gap had shrunk to \$5,231. However, without a change in statute for FY 2007-08, no further shrinking of the gap would have occurred.

Public Act 137 of 2007 and a Return to the Gap-Narrowing Formula

The School Aid budget for FY 2007-08 was enacted in Public Act 137 of 2007. The most notable feature of this budget was the resurrection of the gap-closing formula used from FY 1994-95 through FY 1999-2000. This formula provides a "base" increase for all districts, and then gives more per-pupil funding to those districts below the "target" foundation allowance. When Proposal A was implemented, the "target" or basic foundation allowance was \$5,000; districts above that amount received a flat per-pupil increase, and those below that amount received up to double the amount given to districts above, on a sliding scale. Over time, the \$5,000 "target" grew commensurately with the yearly dollar increases provided to all districts, until FY 1999-2000, when all districts "caught up" to the target of \$5,700 per pupil.

Under Public Act 137, a new target of \$8,433 was established. This figure was chosen because it represents the point at which State funding supporting a district's foundation allowance ceases, and any per-pupil allowance above that amount must be paid for with local revenue. In school aid terminology, this is the point at which "hold-harmless" districts begin receiving their local funds. The \$8,433 figure will grow over time (as did the prior basic or target), with the growth equal to the per-pupil increases given to districts whose foundation allowances are above that amount. Districts below that amount will receive more per-pupil funding than those above, and in that manner, the gap will narrow.

¹ Bloomfield Hills is the highest per-pupil funded district with a standard-sized pupil population. (Two districts with fewer than 10 pupils have higher per-pupil allowances.)

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Table 1

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Foundation Allowance Changes Since Proposal A FY 1993-94 through FY 2007-08					
			Growth in		
Fiscal Year	Minimum	Basic	Basic	Maximum ¹⁾	Equity Gap
1993-94	\$2,762	n/a	n/a	\$10,294	\$7,532
1994-95	4,200	\$5,000	n/a	10,454	6,254
1995-96	4,506	5,153	\$153	10,607	6,101
1996-97	4,816	5,308	155	10,762	5,946
1997-98	5,124	5,462	154	10,916	5,792
1998-99	5,170	5,462	0	10,916	5,746
1999-2000	5,700	5,700	238	11,154	5,454
2000-01	6,000	6,000	300	11,454	5,454
2001-02	6,500	$6,500^{2)}$	500	11,754	5,254
2002-03 ³⁾	6,700	6,700	200	11,954	5,254
2003-04 ³⁾	6,700	6,700	0	11,954	5,254
2004-05	6,700	6,700	0	11,954	5,254
2005-06	6,875	6,875	175	12,129	5,254
2006-07	7,108	7,108 ⁴⁾	233	12,339	5,231
2007-08	7,204	8,433	n/a	12,387	5,183

This maximum is for Bloomfield Hills, the highest per-pupil-funded district with a standard-sized pupil population. (Two districts with fewer than 10 pupils have higher per-pupil allowances.)

Specifically, for FY 2007-08, any district that in FY 2006-07 had a foundation allowance greater than \$8,385 (i.e., "hold-harmless" district) is receiving a \$48 per-pupil increase in FY 2007-08 (the sum of which brings the new target to \$8,433). Any district that was at the minimum foundation allowance in FY 2006-07 (or \$7,108) is receiving double the amount given to the hold-harmless districts, or \$96 per pupil. For those districts with foundation allowances more than the minimum, but less than \$8,385 in FY 2006-07, the increase being received in FY 2007-08 is something between \$48 and \$96, where lower foundation allowances generate higher perpupil increases. Again, this is how the equity or per-pupil funding gap is narrowed. Figure 1 below illustrates a few specific examples, with varying district foundation allowances from FY 2006-07, and the per-pupil increase provided in FY 2007-08.

For FY 2001-02, the Basic Foundation Allowance was actually \$6,300. However, a \$200 per-pupil equity payment was subsequently built into the base for that year.

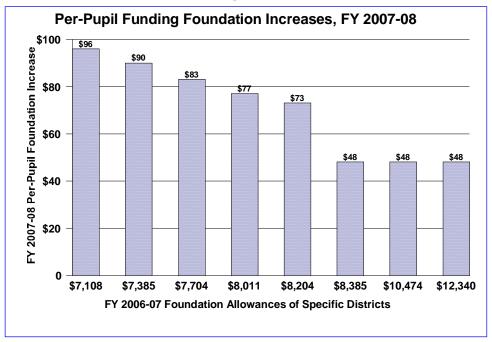
For FY 2003-04 and FY 2004-05, proration occurred; this did not statutorily reduce the foundation allowance, but reduced per-pupil funding by approximately \$74 each year.

For FY 2006-07, the Basic Foundation Allowance was actually \$7,085. However, a \$23 per-pupil equity payment was subsequently built into the base for that year.

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This inclusion in statute of a long-term gap-closing formula differs from the equity payments provided in two previous years. In FY 2001-02 and FY 2006-07, per-pupil "equity" payments of \$200 and \$23, respectively, were provided. Those equity payments were each one-year methods to close the gap, but were not long-term in the sense of setting a new targeted funding level. They also did not work on a sliding scale, where those districts at the bottom received more than those nearer the target.

Change in Charter School Formula

The resurrected formula provides a different manner of funding for public school academies (i.e., PSAs or charter schools) than in previous budget years. Until FY 2007-08, charter schools were allocated the lesser of the per-pupil funding of the local district in which the PSA was physically located or \$300² above the basic foundation allowance. Beginning in FY 2007-08, however, the maximum per-pupil funding a PSA can receive is still capped, but the cap is no longer tied to the basic foundation allowance.

Instead, the cap reflects what the cap was in FY 2006-07, increased over time pursuant to the resurrected gap-closing formula. In this manner, PSAs or under at the cap will be treated the same as local school districts with the same foundation allowances, and given the same increases the allowances. Over time, charter schools that were capped below the funding level of the districts in which they are located will catch up to their local districts' funding, and then the funding of both will move together toward the target. Figure 2 below illustrates this occurrence.

² Until FY 2002-03, PSAs were capped at \$500 above the basic foundation allowance, but the \$200 equity payment in FY 2001-02 reduced this cap to \$300.

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Eventually, if the formula is retained until the target is reached, all charter schools and local school districts that had per-pupil funding below \$8,385 in FY 2006-07 will attain the new targeted funding level.

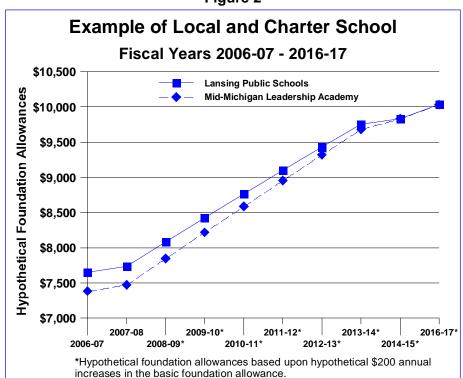


Figure 2

A Long Way to Go

Assuming this revived funding formula remains in law, it is unknown how long it will take to reach the new target, since that will depend upon available revenue and the demand for that revenue by other programs. The last time, revenue was booming in the late 1990s, and the target (which was only \$800 more than the minimum at that time) was reached in six years. The new target is \$1,229 higher than the minimum, or about 50.0% larger, and revenue is not booming. If revenue were large enough to support \$100 yearly increases in the basic foundation, it is estimated that it would take 13 years for the minimally funded districts to hit the new target. If revenue boomed and \$200 yearly increases were provided, then an estimated seven years would be necessary to reach the new targeted per-pupil funding level.

If the new target is reached, the gap will still be nearly \$4,000 per pupil, although, once reached, 90.0% of districts will be at the targeted level of funding. Of course, the Governor and Legislature at any time could enact legislation that changes or eliminates this method of closing the per-pupil funding gap, or could retain the formula. Therefore, time will tell the course of school district funding in Michigan.